indefensible schedules brought out the declaration that the "best protection to protection is free trade in facts." It was suggested that the recent reversals suffered by the Republican party might have been avoided if the tariff revision had been conducted on the basis of the commission plan. There is a feeling in the country that certain schedules were dictated by favored interests. Either this is true or it is not true, and the sooner it is found out the better for every concern that is above board.

The essence of the resolutions adopted is as follows:

We demand from the Sixty-first Congress, now convened in its final session, the enactment of a bill creating a permanent non-partisan tariff commission having functions and compensations analogous to those enjoyed by the interstate commerce commission, including the power to require the giving of testimony under proper conditions and safeguards, and for proper purposes, the functions of the commission being the ascertainment of all technical, industrial and statistical facts necessary or useful to Congress in the framing of tariff legislation and to the executive in the administration of tariff laws, the commission to report the results of its work and findings to either Congress or the President, as called for.

Indorsement was given to

the proposal of President Taft that hereafter the work of tariff revision, whenever required, shall be accomplished, schedule by schedule, or preferably one subject at a time, each subject to be so defined that items that are interrelated shall be grouped together, rather than by the sweeping revision of the entire tariff, to the end that revision may be accomplished in a more orderly, accurate, scientific and impartial manner, and without disturbance of business inevitable to a general tariff revision

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## WASHINGTON NOTES

THE CANADIAN RECIPROCITY TREATY
A NEW COMMERCIAL POLICY
RAILWAY SECURITIES INQUIRIES
IMPORTANT TREASURY PROPOSALS

Probably the most important event of the winter from the standpoint of federal legislation has been the action of President Taft in sending to Congress a draft of a reciprocity treaty with Canada. This was transmitted on January 26 (Senate doc. 787,

61st Cong., 3d sess.) accompanied by elaborate statistical analyses and trade figures. The reciprocity treaty was speedily embodied (in so far as concerns our side of the bargain) in a measure entitled the McCall Bill (H.R. 32,216), since it was considered necessary to have the proposal ratified first by the House of Representatives, inasmuch as it involves revenue questions. The McCall bill simply provided for the changes of duties called for by the treaty or agreement, such changes to be conditioned upon the making of the corresponding changes in the rates charged by Canada upon American products entering the Dominion. This action is itself interesting as the first formal recognition of the position taken by the House of Representatives some years ago when the Kasson reciprocity treaties were under consideration. The attitude then assumed was to the effect that the House could not consent to action by the Senate in confirming treaties that would alter tariff duties. The transmission of the reciprocity treaty has, moreover, been attended by new political alignments and by controversies among industrial interests that indicate a probability that its effect will be as important in changing political relationships as in altering international economic conditions.

In substance the reciprocity agreement consists of four schedules designated as A, B, C, and D. Schedule A is a list of articles which are to be admitted free of duty by both Canada and the United States. Schedule B is a list of articles which are to be reciprocally admitted into Canada and the United States at specified rates of duty made uniform by both countries and less than those now charged upon imports into either country. Schedule C is a list of articles produced in Canada which are to be admitted into the United States at specified rates of duty less than those now charged by us, the schedule D is a list of articles produced by the United States which are to be admitted into Canada at specified rates of duty below those now charged by her. The articles which are enumerated in schedule A and which would enter both countries free are, in general, farm and orchard products and livestock, lumber of certain kinds, a few mining products, such as mica, asbestos, fluorspar, etc., a very few manufactures of steel, one or two items of machinery, and wood pulp and print paper worth not more than 4 cents per pound. The items in schedule B comprise some meat products, such as fresh meats, bacon and hams, etc., a few

farm and natural products especially prepared, such as cereal foods, mineral waters, etc., agricultural implements, and a few manufactures including cutlery, plate glass, automobiles, and some others. In schedule C are included about seven items, among them aluminum, sawed boards, iron ore, and coal slack. Schedule D enumerates some eight items, among them being Portland cement, canned fruits, peanuts, and coal. The reductions of duty allowed in schedules B, C, and D are uneven but are in no case very large. Most of them would probably be of comparatively trifling importance in their effect upon international trade, so that the real interest in the agreement centers around schedule A, which —as already noted—is a list of freely admitted items.

In advocating this agreement, President Taft has placed his argument upon general grounds of broad statesmanship. In writing to Congress he says:

> The guiding motive in seeking adjustment of trade relations between two countries so situated geographically should be to give play to productive forces as far as practicable, regardless of political boundaries. . . . . We have reached a stage in our own development that calls for a statesmanlike and broad view of our future economic status and its requirements. We have drawn upon our natural resources in such a way as to invite attention to their necessary limit. This has properly aroused effort to conserve them, to avoid their waste, and to restrict their use to our necessities. We have so increased in population and in our consumption of food products . . . . that unless we materially increase our production we can see before us a change in our economic position, from that of a country selling to the world food and natural products of the farm and forest, to one consuming and importing them. . . . .

It is interesting to observe that President Taft, contrary to some current ideas, does not pretend that the agreement with Canada will reduce the cost of living. He says:

> I do not wish to hold out the prospect that the unrestricted interchange of food products will greatly and at once reduce their cost to the people of this country, . . . . but a source of supply as near as Canada would certainly help to prevent speculative fluctuations, would steady local price movements, and would postpone the effect of a further world increase in the price of leading commodities entering into the cost of living, if that be inevitable. . . . .

Attacks upon the Canadian treaty have come from several sources of quite distinct character. Their nature illustrates, perhaps better than in any other similar case of recent years, the

character of the forces that oppose tariff changes. (1) Probably the most strenuous single source of opposition has been found in the wood-pulp and print-paper industry. Under the Dingley Tariff, print paper paid a rate of $6.00 per ton. Before the Payne bill was introduced a special committee of representatives headed by James R. Mann of Illinois made an investigation of the paper situation and recommended that wood pulp be made free and that print paper be reduced to $2.00 per ton. These provisions were incorporated in the Payne bill and passed the House, but when the tariff measure went to the Senate there was long-continued juggling with the duties. In the bill as finally passed by the Senate, the rate on print paper was $4.00 per ton, and wood pulp, although nominally free, was subjected to a system of countervailing duties to be called into play in the event that export taxes or restrictions were levied by foreign countries upon pulp shipped to us. This provision was directed against Canada because of the system of export taxes levied by the several Canadian provinces upon wood pulp made of wood cut on crown lands. In the bill as it came from conference committee, these countervailing duties were retained, but the tariff on print paper was cut to $3.75 per ton. As, however, paper was subject to the countervailing-duty system upon its constituent elements (wood pulp), it shortly appeared in practice that much of the print paper imported from Canada had to pay a duty of $6.75 per ton. Paper interests, from the time of the introduction of the Canadian agreement, have therefore been bitter in their protest against its satisfaction. (2) A second interest very vigorous and positive in opposing the agreement has been that of the lumber dealers. Lumber was one of the items most discussed during the Payne-Aldrich tariff struggle. The effort was then made to make the item free, but this was unsuccessful, the combined lumber interests being too strong. Since then, investigation on the part of the Bureau of Corporations has shown that the commercial forest resources of the country are in the hands of less than 200 persons, and it is this small group which has bitterly opposed the Canadian agreement. (3) Certain farming interests have taken a broad, though rather indefinite, attitude of hostility to the agreement on the ground that the farmer is by it sacrificed to the manufacturer, as there are no manufacturing concessions in the treaty that amount to much, while the farmer is compelled to pay the bill for the attainment of closer commercial

relations. (4) A specialized agricultural interest which has been very vigorous in its antagonism is that concerned with the production of barley—an important item in the brewing industry. While maltsters whose business is centered at Buffalo have favored the agreement, because it would enable them to get cheap grain direct from the eastern Canadian provinces, the malting interests of Milwaukee have opposed the agreement because they thought an advantage would thereby be given to their competitors in Buffalo. (5) The fish industry of the Massachusetts coast centered at Gloucester has been exceptionally hostile because of its feeling that with Canadian fish entering the country free it would be impossible to maintain the high prices for fish which have been exacted by the Massachusetts packing houses for a good while past. This opposition has, however, been somewhat neutralized by the general public sentiment prevalent in Massachusetts in favor of reciprocity. (6) In addition to the sources of opposition already enumerated, there has been a vague general hostility based upon the alleged fact that the agreement would be beneficial to the "trusts," because of the fact that whereas "raw materials" were to enter the country free of duty—as, for example, livestock —finished products worked up out of these raw materials—for example, packing-house products—were not to lose much of their present protection.

An interesting phase of the reciprocity agreement is seen, moreover, in its probable future effect upon our relations with those foreign countries with which we have favored-nation treaties. In the case of those countries, it seems probable, there will be an energetic demand for an extension of the same rates to them that are granted to Canada under the proposed agreement. Thus, in the case of Germany and England, it is anticipated that the claim will be advanced that the agreement with Canada practically establishes a new set of minimum rates of duty. In former years, our attitude with respect to the most-favored-nation clause in commercial treaties has been that, even where such treaties existed, a nation B could not claim from us the same advantages as we granted to a third nation C, unless B were ready to make a bargain with us which would give us an equivalent for the concessions made by C in our special commercial agreement with the latter. It was upon this attitude that our past reciprocity policy

was founded and this was the reverse of the so-called European interpretation of the most-favored-nation clause. The latter interpretation is to the effect that where a most-favored-nation treaty exists between two nations, A and B, any advantage granted by A to C, a third nation, is automatically extended to B because of B's enjoyment of most-favored-nation privileges. When we passed the Payne-Aldrich law with its maximum and countervailing tariff sections, we were obliged practically to repudiate this position because of the fact that we then demanded of every country the best terms allowed by that country to any other. Thus, in the case of Germany, we insisted that the full minimum rates given by her to every other country should be extended to ourselves. It is already understood by our diplomatic officers that, in the event we now adopt the Canadian agreement, we shall be in no position to refuse a similar demand on the part of Germany. If Germany should request the extension of our Canadian rates to her, it would be no more than we demanded from Germany last winter, and in the event that we declined to grant such rates, we should not be able in the future to demand the advantages of any new low rates that Germany might by special treaty give to any other countries in the future. This would apparently mean that the arrangements which we have succeeded in working out under the terms of the Payne-Aldrich tariff law would not longer hold good, unless we were prepared to regard the rates of the Canadian treaty as practically universal and valid. The adoption of the agreement therefore implies a rather radical and far-reaching change in our commercial diplomacy.

President Taft's Railroad Securities Commission has held two series of sessions, subsequent to the first series held in Washington early in December, described in this journal. One of these series occurred in New York City, December 15–22 inclusive, the other in Chicago, January 23–27. At both series of sessions, witnesses drawn from among the economic, financial, and business experts of the country appeared before the commission, and were questioned with reference to their ideas regarding the control of securities issued by the government. In addition to these oral hearings, the commission has sent out communications to various presumably informed persons throughout the country asking for their views with respect to all phases of

the problem of regulating the issue of stocks and bonds. The principal topics dealt with have been the advisability of limiting the issuance of capital stock at par for money or property of the actual value of the stock issued; the sale of bonds at a discount; the sale of new stock at par to stockholders when the old stock is selling above par in the market; the capitalization of betterments, additions, and extensions—charged in the past to income but which might have been charged to capital; the mode of valuation of the physical and non-physical property of railroads in the event the valuation of the property of the roads is made a basis of capitalization; the question how far a government agency should have the power to intervene or should have to be applied to, to control or permit the issue of securities when a road finds it necessary or desirable to put them on the market. Thus far there has been no indication of the commission's intentions. The testimony offered at its sessions has been of considerable interest, and although the more serious of the written replies have come in slowly, enough have been filed to show the drift of opinion on the part of some of the more important interests affected by the proposed control of securities issues. Probably the most complete and effective replies thus far received are from certain of the officials of the railroad companies. In general the attitude of the roads is that regulation rather than control is desirable, and that such regulation should be confined to the assuring of publicity and full knowledge on the part of the investors concerning proposed financial operations. There has been a very strong expression of opinion against requiring the direct and specific permission of the government, through any commission or other official body, prior to the undertaking of a given financial operation or issue of securities. This position has been assumed on the ground that, since roads vary in strength, it is not possible for all to pursue the same financial policy. It is urged, further, that since the price of bonds and stocks in the market is a factor of many diverse influences it is not possible for a governmental body to indicate at a specified moment the exact amount which should be realized by the issuers of a given class of security for what they offer to the investor.

Secretary McVeagh of the Treasury Department has proposed to Congress important financial legislation which indicates the gen-

eral line of policy he is following in his administration of the Treasury. Conspicuous in his proposals are the bills to allow the issue of gold certificates against gold bullion and foreign coin (H. R. 31,857), to allow the receipt by the government of certified checks on national and state banks in liquidation of customs and internal revenue duties (H.R. 30,570), and to allow the issue of $100,000,000 of Panama bonds without the circulation privilege (H.R. 32,218). The Panama bond bill indicates the beginning of a policy of issuing bonds on a pure investment basis and without the privilege of use as security behind national bank-notes. This also signifies that further issues of bonds by the government will not operate to depress the price of the $730,000,000 of 2's already on the market—an issue which is now confessedly very heavy and likely at any time to sink below par. The gold-certificate measure is intended to save expense at the mints and to allow the easy furnishing of gold bars for export upon the presentation of certificates. The certified check bill has long been demanded by the commercial community on the ground that present conditions as to government payments are archaic. Today it is necessary for importers to have actual coin carted to the sub-treasury before they can draw upon their banks and liquidate their duties by means of a check. The use of a certified check amply protects the government, and at the same time it is a beginning of a treasury policy which may be expected ultimately to eliminate the sub-treasury system. Tending in this same direction is the further measure proposed by Secretary McVeagh (House doc. 1,356, 61st Cong., 30 sess.) in which it is sought to relieve the Secretary from the present obsolete requirements of the sinking-fund legislation and to substitute for them the power to use any surplus moneys in the Treasury for the purchase of outstanding bonds.